CENTURYTEL, INC.

Impact of a Negative Rural Growth Factor on
Rural High-Cost Loop Support

- Rural high-cost loop support (HCLS) is paid in rural study areas where average per-line costs are more than 115% of the national average cost per loop (NACPL)

- The amount of HCLS is "capped" in several ways:

  - Total funding is capped at the prior year's funding times the Rural Growth Factor. If rural ILECs qualify for more funding than is available, based on the actual NACPL, the FCC adjusts the effective NACPL so the amount of support distributed fits within the capped fund

  - The corporate operations expense cap controls the amount of overhead that may be included in rural carriers' cost calculations for purposes of HCLS

  - Section 54.305 of the Commission's rules limits support for acquired exchanges to the amount the seller was getting, subject to adjustment using the "safety valve"

  - Support available in study areas with over 200,000 lines is significantly reduced (via a separate set of limitations) from the level provided in study areas with fewer lines

- Due to the overall fund cap, the minimum per-loop costs that a rural carrier must have to receive HCLS rose from $276 in 2001 to over $368 in 2006[1]

  - This is a 33% increase in the per-loop cost threshold in just five years; meanwhile, costs have remained steady and operational lines have declined

  - Carriers whose per-line costs are not increasing at a rate of 6% per year lose support and therefore are penalized

- The negative Rural Growth Factor is a significant problem, causing the total amount of HCLS funds available to rural ILECs to decline for the first time in 2005, and again in 2006

  - The Rural Growth Factor is equal to the change in the GDP-CPI plus the change in rural ILEC working loops, and rural ILEC working loops have declined in three of the past four years (see Table 1 below)

  - If the change in rural ILEC loops had been not less than zero, HCLS funding for 2006 would be $1.105 billion, or $57.9 million higher than the $1.047 billion of HCLS funding actually available to rural ILECs in 2006 (see Table 2 below)

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[1] Study area-wide average costs per loop must be at least 115% of the NACPL to qualify for any support at all. The FCC sets the effective NACPL after sizing the fund for the coming year. In 2001, NACPL initially was set at $240, leading to a floor of $276 per loop for eligibility, but this was outdated even before it took effect; by 2006 NACPL was $320.53, making the floor at least $368.61 per loop.

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Table 1
The Rural Growth Factor
If the Change in Rural ILEC Loops Could Not Be Less Than Zero

	2006	2005	2004	2003
Change in Rural ILEC Loops	-3.3729%	-1.8700%	0.0368%	-0.0760%
Change in GDP-CPI 2004	2.6263%			
Change in GDP-CPI 2003		1.83000%		
Change in GDP-CPI 2002			1.13325%	
Change in GDP-CPI 2001				2.3670%
Rural Growth Factor	2.6263%	1.8300%	1.1700%	2.3670%

Table 2
Difference in High Cost Loop Support (HCLS)
Due to a Negative Rural Growth Factor

	2006	2005	2004	2003
HCLS Fund Cap	$1,047,318,355	$1,055,196,452	$1,056,817,462	$1,044,595,692
HCLS Fund Cap Calculated with Loop Growth Never Less Than Zero	$1,105,240,899	$1,076,956,783	$1,057,602,654	$1,045,371,804
Difference in Funding (non-cumulative)	$57,922,543	$21,760,331	$785,193	$776,112